

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name <b>HACKLEY PUBLIC LIBRARY</b>		County <b>MUSKEGON</b>
Audit Date <b>6/30/05</b>		Opinion Date <b>8/5/05</b>		Date Accountant Report Submitted to State: <b>10/10/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

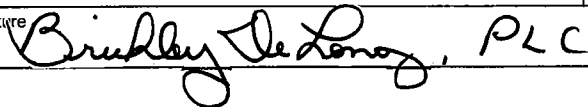
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASL GU).			✓

Certified Public Accountant (Firm Name) <b>Brickley DeLong, PLC</b>				
Street Address <b>500 Terrace Plaza, P.O. Box 999</b>		City <b>Muskegon</b>	State <b>MI</b>	ZIP <b>49443-0999</b>
Accountant Signature 			Date <b>10/10/05</b>	

Hackley Public Library  
Muskegon County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

June 30, 2005

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### Brief Discussion of the Basic Financial Statements

This report consists of three parts -- *management's discussion and analysis (this section)*, *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These financial statements focus on current resources and provide a detailed view about the Library's sources and uses of funds.
- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method.
- The third column provides both long-term and short-term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole and present a longer term view of the Library's finances.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

This is the second year of the management's discussion and analysis report, consistent with *Governmental Accounting Standards Board Statement Number 34*. This year's report shows data comparative with the prior year in the condensed financial information section.

### Condensed Financial Information

#### Condensed Statement of Net Assets

	<u>2005</u>	<u>2004</u>
Current assets	\$ 1,535,886	\$ 1,454,306
Capital assets, net	<u>457,950</u>	<u>324,605</u>
Total assets	1,993,836	1,778,911
Current liabilities	<u>89,220</u>	<u>90,391</u>
Net assets		
Invested in capital assets	457,950	324,605
Restricted for collection expenses	314,560	309,168
Unrestricted	<u>1,132,106</u>	<u>1,054,747</u>
	<u>\$ 1,904,616</u>	<u>\$ 1,688,520</u>

### A. Statement of Net Assets

Funds invested in capital assets include the Library's collections of materials as well as its fixed assets, minus depreciation. These capital assets are not readily available for the payment of bills. The funds restricted for collection expenditures are a fund donated by Edwin E. Valentine for "the acquisition of books and for the restoration, maintenance, and improvement of the collection". Unrestricted net assets are not restricted and are available for operating expenditures.

The above analysis focuses on the change in the Statement of Net Assets.

- Current assets, primarily cash, increased due an increase in the fund balance (net assets) of \$63,099.
- Capital assets increased by \$133,345 due to continued high purchases and donation of items and improved record keeping.
- Unrestricted net assets increased due to the positive operating results for the year.

### B. Statement of Activities

The table below shows key financial information under the full accrual method in a condensed format. Amounts and totals reported are for all Library activities, including general operations, improvements, and gift activity in order to give a complete picture.

#### Condensed Statement of Activities

	<u>2005</u>	<u>2004</u>
General revenues		
Property taxes	\$ 1,652,479	\$ 1,655,230
Grants and contributions	132,915	159,015
Fines and forfeitures	159,840	165,565
Other	<u>27,860</u>	<u>22,187</u>
Total revenues	1,973,094	2,001,997
Expenditures		
Salaries and wages	1,027,612	1,021,327
Fringe benefits	409,954	359,256
Contracted services	68,491	77,407
Depreciation	102,917	62,155
Other expenses	<u>148,024</u>	<u>153,239</u>
Total expenses	<u>1,756,998</u>	<u>1,673,384</u>
Change in net assets	216,096	328,613
Net assets at beginning of year	<u>1,688,520</u>	<u>1,359,907</u>
Net assets at end of year	<u>\$ 1,904,616</u>	<u>\$ 1,688,520</u>

The above condensed Statement of Activities is focused on the change in the Statement of Activities.

### 1. Revenues

- Grants and contributions decreased due to a decrease in donated books. The overall donations were \$88,371 down from \$112,056 in the prior year. These donations included the value of the donations received from the Friends of Hackley Library, an independent 501(c)3 support group.
- Other revenues increased due to investment income tripling during the year due to an increase in interest rates.

### 2. Expenditures

- Salaries and fringe benefits are a significant expenditure for the Library, representing 79.7 percent of the Library's total expenditures.
- Salary expenditures were nearly flat, due to reduced positions and reduced number of hours in some positions offset by salary increases.
- Fringe benefits increased due to an 11% increase in the cost of health insurance effective March 1 and due to more employees electing to receive health insurance rather than to take an "opt out" payment.
- Depreciation continued to reflect large additions to the collection.

### The Library's Fund

The analysis of the Library's major fund is included on page 2 and 3. These pages show the General Fund, the Library's major operating fund. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund increased during the current year by \$82,214. This was a decrease from the prior year's increase of \$152,203. Spending was controlled where possible, vacant positions were not filled, and three staff members voluntarily reduced their hours, representing significant savings. As noted above, fringe benefits increased significantly during the year. Capital outlay expenditures increased due to technology spending. These increases were offset by a decrease in a number of expenditures from the prior year. Repair and maintenance costs were unusually low last year because there were fewer unusual repairs. Contracted services were higher in 2004 due to legal fees for contract negotiations in 2004 with the SEIU. The result of all these expenditures changes was an overall increase in expenditures of \$64,771.

### The Library's Budget Highlights

Over the course of the year, the Library Board amended the budget twice to address unplanned needs and events that occurred during the year. The most significant changes occurred in revenues received from property taxes and from penal fines.

#### 1. Revenues

- The increase in the amount budgeted for property taxes in the final budget vs. the amount in the original budget can be attributed to an error in calculation that occurred due to omitting the industrial facilities tax revenue in the initial budget preparation.
- The revenue for penal fines was lower than originally anticipated. This revenue source is always uncertain because it is based on the fines assessed by the courts for violations of state statute. The judges have a great deal of discretion in the amount of fines they assess, choice of payment of the penal fine or jail time by those sentenced affects library penal fine revenue, and the numbers of crimes for which there are convictions varies as well.
- Finally, in 2004-2005, there was an organized effort by the Muskegon County Sheriff to establish local ordinances that are parallel to state law, so that penal fine revenue would go to county government rather than to libraries.

#### 2. Expenditures

- Salaries and wages were amended higher because actual expenditures were higher than anticipated due to summer vacations.
- Fringe benefits were amended higher because health insurance costs increased and because more employees elected to take health insurance.
- Repair and maintenance expenditures decreased because there were few items requiring maintenance and repair.
- Costs for contracted services were higher because the Long Range Plan was completed in this fiscal year. We had anticipated that it would be completed in the previous year.
- Other expenditures were increased as a contingency for possible other unforeseen costs.
- Capital expenditures were amended higher to account for additional technology needs identified and purchased during the year.

### Budget to Actual

- Investment income exceeded budget due to continued increase in interest rates
- Contributions were also lower than originally anticipated. Contributions are difficult to predict and fluctuate from year to year.

- Fringe benefits were under budget due to the budget including the July health insurance payment. The July health insurance payment as paid, but reclassified to prepaid expenditures. This prepaid expenditure will be shown in next year's audit report.
- Other expenditures were amended higher in anticipation of additional expenses that did not occur.

### Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$457,950 invested in leasehold improvements, furniture and equipment, and books and materials net of depreciation. The Library added \$236,262 in new collection items consisting of new books, various audio/visual materials, and planned upgrades to technology. Items in the materials collection that had become obsolete were donated to the Friends of Hackley Public Library for their annual used book sale, given to another library or institution, or disposed of. The value of fully depreciated materials removed from the collection amounted to \$583,941.

As part of the Library's strategic long range plan, an item-by-item review ("weeding") of all Library books and audiovisual materials is being conducted by the professional staff in order to provide the public with information and recreational reading sources that are up-to-date, contemporary, and in good condition. This major weeding project is estimated to be completed in June 2008, with routine withdrawal of obsolete, unused, worn or damaged materials continuing indefinitely as a component of recognized good library practice. Such routine collection evaluation had not taken place at the Hackley Public Library for many decades.

The Library's long-term debt activity consists of capped accumulated employee compensated absences (sick leave) to be paid to eligible employees upon retirement.

### Next Year's Anticipated Budget Factors and Currently Known Facts

In 2004, the former mall property in the City of Muskegon was bulldozed. There has been no new construction and there are no imminent development plans, although road construction and the replacement of utilities have begun. In addition, three large employers in the City of Muskegon have announced plans to move their operations outside the city after the 2005-2006 Library budget was prepared: Sappi paper mill, Brunswick bowling equipment and Fitzpatrick electric supplies. Although there are some bright signs for economic development in the city, most have received tax abatements or are located in state-defined Renaissance zones. Therefore, no significant increase in property tax revenue is anticipated and a decline in revenue in the future is possible.

In 2004-2005 the Library completed a five year strategic long range plan. The Library Board, staff, community members, focus groups and comparative data were used in the development of the Long Range Plan. Activities in the areas of collections, buildings, and technology addressed in the Long Range Plan that will impact the Library's financial position in 2005-2006 include:

Environmental, mechanical and space needs of the Library will be evaluated by contracted professionals over the course of the next year. A Request for Proposal for a Library Buildings Consultant has been put out and was due on September 15, 2005. Consequently, expenditures for contracted services as well as building repair and maintenance costs are expected to rise in 2005-2006.



A plan for technology upgrades and replacement of obsolete equipment was adopted in December 2004. This 2004-2008 plan has already been implemented, with the replacement of the Library's antique servers, the upgrading of some wiring, and the replacement of public internet stations. Although staff had anticipated the need to fund this upgrade with fund equity monies, careful management made that unnecessary. Older equipment is reassigned to areas of the Library where there is less need for current configurations, is disassembled and the parts reused in other Library computers, is recycled, or is discarded.

In 2005, the Library received approval for a grant which was not completely accomplished during the 2004-2005 fiscal year.

This federal LSTA (Library Services and Technology) grant was made to digitize 500 images of Muskegon that are held in the collections of the Library and of the Muskegon County Museum was approved. The purpose of this grant was to preserve the actual fragile historic documents, photos and other items, while making them more accessible to the public via the Library's web site by digitizing the images. \$6,908 was approved by the Library of Michigan, the Michigan agent for LSTA grants, with the Library providing 20% in matching funding. Most of the work of the project has been completed but the reimbursement from the Library of Michigan has not yet been received. Problems with the project will result in less than the total amount of approved reimbursement.

### **Contacting the Library's Financial Management**

This financial report is designed to provide a general overview of the Library's finances for all those interested in the Library's finances. If you have any questions about this report or need additional information, contact Marty Ferriby, Director at Hackley Public Library, 316 W. Webster Avenue, Muskegon, Michigan 49440.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

August 5, 2005

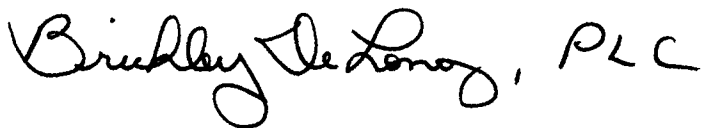
Board of Directors  
Hackley Public Library  
Muskegon, Michigan

We have audited the accompanying financial statements of Hackley Public Library as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hackley Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hackley Public Library as of June 30, 2005 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i through vi and 13 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Hackley Public Library  
**BALANCE SHEET—STATEMENT OF NET ASSETS**  
June 30, 2005

	Balance Sheet - Modified accrual	Adjustments	Statement of Net Assets - Full accrual
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,031,162	\$ -	\$ 1,031,162
Due from other governmental units	172,972	-	172,972
Prepaid expenditures	17,192	-	17,192
Restricted cash	314,560	-	314,560
Capital assets, net of depreciation			
Nondepreciable	-	6,000	6,000
Depreciable	<u>-</u>	<u>451,950</u>	<u>451,950</u>
Total assets	<u>\$ 1,535,886</u>	457,950	1,993,836
<b>LIABILITIES</b>			
Accounts payable	\$ 18,105	-	18,105
Accrued liabilities	<u>56,149</u>	<u>14,966</u>	<u>71,115</u>
Total liabilities	74,254	14,966	<u>89,220</u>
<b>FUND BALANCE</b>			
Reserved for prepaid expenditures	17,192	(17,192)	-
Reserved for collection expenses	314,560	(314,560)	-
Unreserved	<u>1,129,880</u>	<u>(1,129,880)</u>	<u>-</u>
Total fund balance	<u>1,461,632</u>	<u>(1,461,632)</u>	-
Total liabilities and fund balance	<u>\$ 1,535,886</u>		
<b>NET ASSETS</b>			
Invested in capital assets		457,950	457,950
Restricted for collection expenses		314,560	314,560
Unrestricted		<u>1,132,106</u>	<u>1,132,106</u>
Total net assets		<u>\$ 1,904,616</u>	<u>\$ 1,904,616</u>

The accompanying notes are an integral part of this statement.

Hackley Public Library  
**STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES**  
 Year ended June 30, 2005

	Revenues and Expenditures - Modified accrual	Adjustments	Statement of Activities - Full accrual
Revenues			
Property taxes	\$ 1,652,479	\$ -	\$ 1,652,479
Intergovernmental revenue—state	38,240	-	38,240
Fines and forfeits	159,840	-	159,840
Investment income	15,916	-	15,916
Contributions	6,304	88,371	94,675
Other	11,944	-	11,944
	<u>1,884,723</u>	<u>88,371</u>	<u>1,973,094</u>
Total revenue	1,884,723	88,371	1,973,094
Expenditures			
Current			
Salaries and wages	1,028,149	(537)	1,027,612
Fringe benefits	409,954	-	409,954
Operating supplies	32,665	-	32,665
Repairs and maintenance	17,266	-	17,266
Insurance	14,259	-	14,259
Dues and fees	1,348	-	1,348
Contracted services	68,491	-	68,491
Training	2,161	-	2,161
Rent	14,783	-	14,783
Telephone	10,364	-	10,364
Other	12,591	-	12,591
Capital outlay	190,478	(147,891)	42,587
Depreciation	-	102,917	102,917
	<u>1,802,509</u>	<u>(45,511)</u>	<u>1,756,998</u>
Total expenditures	1,802,509	(45,511)	1,756,998
Change in fund balance—net assets	82,214	133,882	216,096
Fund balance—net assets at July 1, 2004	<u>1,379,418</u>	<u>309,102</u>	<u>1,688,520</u>
Fund balance—net assets at June 30, 2005	<u>\$ 1,461,632</u>	<u>\$ 442,984</u>	<u>\$ 1,904,616</u>

The accompanying notes are an integral part of this statement.

Hackley Public Library  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**1. Reporting Entity**

The Hackley Public Library (Library) was established on February 20, 2001 by a district library agreement between the Public Schools of the City of Muskegon (School District) and the City of Muskegon (City) pursuant to the District Library Establishment Act. The boundaries include most of the City and a small portion of Muskegon Township and the City of Norton Shores all of which comprise the School District boundaries. The Library is governed by a seven member Library Board. The School District appoints four members and the Library appoints three. The Library is administered by a director appointed by the Board. The Library is primarily funded through a tax levy on property within the Library district, fines, fees and state aid.

**2. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. Separate financial statements are provided for governmental funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Since the Library only has one fund, no separate columns have been provided.

**3. Measurement Focus and Basis of Accounting**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Hackley Public Library  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Fund Equity or Net Assets**

**Deposits and Investments**

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the Library intends to hold the investment until maturity.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

**Receivables and Payables**

All property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied on December 1 and are due without penalty on or before February 14. The property taxes attach as an enforceable lien on property as of December 1. Uncollected real property taxes as of the following March 1 are turned over by the participating municipalities to the County for collection. The County advances the Library all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the Library. The 2004 State taxable valuation for real/personal property of the Library total was approximately \$656,900,000. The ad valorem taxes levied consisted of 2.4 mills for operating purposes.

**Prepaid Expenditures**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures. The prepaid items recorded in the governmental fund types do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved.

**Capital Assets**

Capital assets, which include plant and equipment are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Leasehold improvements	20-30
Library books, periodicals, etc.	5
Equipment	3
Furniture and fixtures	5

Art and historical treasures are not depreciated as they generally appreciate in value over time.

Hackley Public Library  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**Compensated Absences**

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused vacation time does not accumulate from year to year. Sick leave is accumulated at different rates for various categories of employees. Unused sick leave accumulates from year to year. Unused accumulated sick leave is forfeited at the time of retirement; however, upon retirement, employees may be paid up to \$30 per accumulated sick day if varying conditions are met.

**Fund Balance and Net Assets**

Reservations and restrictions represent amounts that are not appropriable or are legally segregated for a specific purpose.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

***Budgetary Information***

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the year, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Not later than June 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund and individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

Hackley Public Library  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE C—DEPOSITS AND INVESTMENTS**

**Investment Type.** The Library has one investment in an external investment pool (Pool) with a fair value of \$1,355,000. The fair value of the Library's investments is the same as the fair value of the Pool. The Pool is not regulated nor registered with the SEC.

**Interest rate risk.** The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the two highest classifications issues by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the Library's investment in the Pool was not rated.

**Concentration of credit risk.** The Library does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** The Library does not have a custodial credit risk policy for deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of June 30, 2005, the entire deposit amount of \$26,458 was covered by federal depository insurance.

**Custodial credit risk - investments.** The Library does not have a custodial credit risk policy for investments. In an investment, this is the risk that in the event of the failure of the counterparty, the Library's will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The Library is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2005</u>
<b>Capital assets, not being depreciated:</b>				
Art and historical treasures	\$ 6,000	\$ -	\$ -	\$ 6,000
<b>Capital assets, being depreciated:</b>				
Leasehold improvements	27,430	-	-	27,430
Library books, periodicals, etc.	2,930,797	205,640	576,397	2,560,040
Equipment	101,923	26,936	7,544	121,315
Furniture and fixtures	9,160	3,686	-	12,846
Total capital assets, being depreciated	3,069,310	236,262	583,941	2,721,631



Hackley Public Library  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE D—CAPITAL ASSETS—Continued**

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b>Less accumulated depreciation:</b>				
Leasehold improvements	\$ 3,298	\$ 1,372	\$ -	\$ 4,670
Library books, periodicals, etc.	2,651,194	91,296	576,397	2,166,093
Equipment	90,798	8,372	7,544	91,626
Furniture and fixtures	<u>5,415</u>	<u>1,877</u>	<u>-</u>	<u>7,292</u>
Total accumulated depreciation	<u>2,750,705</u>	<u>102,917</u>	<u>583,941</u>	<u>2,269,681</u>
Total capital assets being depreciated, net	<u>318,605</u>	<u>133,345</u>	<u>-</u>	<u>451,950</u>
Capital assets, net	<u>\$ 324,605</u>	<u>\$ 133,345</u>	<u>\$ -</u>	<u>\$ 457,950</u>

**NOTE E—COMMITMENTS**

**Public Improvement Fund**

The Library, as part of the district library agreement, is required to participate in a Public Improvement Fund established for the maintenance of the Library's facilities. As part of this agreement, the Library must contribute \$25,000 annually to the Public Improvement Fund. This \$25,000 contribution is included in capital outlay on the financial statements. The contribution is matched by the landlord.

**Leases**

**Facilities**

The Library entered into a fifty-year lease agreement for the Library's operating facilities. The lease requires annual rentals of \$1, annual payment to Public Improvement Fund noted above, and payment of all occupancy expenses. The lease can be terminated by the landlord with 48 months written notice.

**Equipment**

The Library is involved in several lease agreements expiring at various dates through December 2009 requiring aggregate minimum monthly payments of approximately \$600. Expense for the year ended June 30, 2005 was approximately \$6,600.

The following is a schedule of future minimum rental payments required under operating leases for Library equipment.

Year ending <u>June 30,</u>	<u>Total</u>
2006	\$ 7,100
2007	7,100
2008	7,100
2009	7,100
2010	<u>5,056</u>
	<u>\$33,456</u>

Hackley Public Library  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN**

**1. Pension Plan - MPSERS**

**Plan description** - The Library contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

**Funding policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2005, were 14.87 percent of payroll. The contribution requirements of plan members and the Library are established and may be amended by the MPSERS Board of Trustees. The Library contributions to MPSERS for the year ended June 30, 2005, 2004 and 2003 were approximately \$122,000, \$110,000 and \$109,000, respectively, and were equal to the required contribution for those years.

The Library is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

Hackley Public Library  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE F—EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN—Continued**

**2. Pension Plan - MERS**

Effective July 2004, the Library started a new pension plan for employees hired after March 2002.

*Plan Description.* The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Library. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Hackley Public Library  
316 W. Webster Avenue  
Muskegon, MI 49440

*Funding Policy.* The Library is required to contribute at an actuarially-determined rate of 8.53 percent of covered wages.

*Annual Pension Cost.* For the year ended June 30, 2005, the Library's annual pension cost was approximately \$9,000 which the Library contributed. The required contribution was determined as part of the July 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 8.4 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Since this is the first year of the plan, three-year trend information and schedule of funding progress is not available.

**Three-Year Trend Information**

<u>Year ending</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percent of APC contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$9,000	100%	\$ -

**REQUIRED SUPPLEMENTARY INFORMATION**

*Schedule of Funding Progress*

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/04	\$5,499	\$4,013	\$(1,486)	137%	\$122,282	(1.2)%

Hackley Public Library  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE G—OTHER INFORMATION**

***Risk Management***

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

**NOTE H—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO  
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

<b>Total fund balance – governmental funds</b>	<b>\$ 1,461,632</b>
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Amounts reported for government activities in the  
Statement of Net Assets is different because:

Capital assets used in governmental activities are  
not current financial resources and are not reported  
in this governmental fund.

Cost of capital assets	\$ 2,727,631	
Accumulated depreciation	<u>(2,269,681)</u>	457,950

Accrued liabilities in governmental activities are  
not due and payable in the current period and are not  
reported in the governmental funds.

Compensated absences	<u>(14,966)</u>
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Net assets of governmental activities in the Statement of Net Assets	<u>\$ 1,904,616</u>
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<b>Net change in fund balances – total governmental funds</b>	<b>\$ 82,214</b>
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Amounts reported for government activities in the  
Statement of Activities are different because:

Contributions of capital assets recorded as revenues in the Statement of Activities, but not in the governmental funds.	88,371
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Governmental funds report outlays for capital assets and  
bond issuance costs as expenditures in the Statement of  
Activities; these costs are depreciated and amortized over  
their estimated useful lives.

Depreciation expense	(102,917)
Capital outlay	147,891

Decrease in compensated absences are reported as expenditures when financial resources are used in the governmental funds.	<u>537</u>
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Change in net assets in governmental activities	<u>\$ 216,096</u>
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## **REQUIRED SUPPLEMENTAL INFORMATION**

Hackley Public Library  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE—BUDGET AND ACTUAL—GENERAL FUND**  
Year ended June 30, 2005

	Modified Accrual			
	Original budget	Final budget	Actual	Over (under) final budget
Revenues				
Property taxes	\$ 1,550,226	\$ 1,655,529	\$ 1,652,479	\$ (3,050)
Intergovernmental revenue				
Federal	-	6,908	-	(6,908)
State	34,450	34,450	38,240	3,790
Fines and forfeits	173,415	157,375	159,840	2,465
Charges for services	1,240	1,240	-	(1,240)
Investment income	4,600	4,600	15,916	11,316
Contributions	7,650	11,723	6,304	(5,419)
Other	9,400	9,400	11,944	2,544
Total revenue	1,780,981	1,881,225	1,884,723	3,498
Expenditures				
Current				
Salaries and wages	1,017,368	1,038,808	1,028,149	(10,659)
Fringe benefits	409,936	439,533	409,954	(29,579)
Operating supplies	33,222	33,408	32,665	(743)
Repairs and maintenance	35,000	24,000	17,266	(6,734)
Insurance	12,220	14,259	14,259	-
Dues and fees	1,225	1,350	1,348	(2)
Contracted services	63,700	75,550	68,491	(7,059)
Training	3,000	3,000	2,161	(839)
Rent	14,000	14,250	14,783	533
Telephone	10,000	10,325	10,364	39
Other	13,310	29,822	12,591	(17,231)
Capital outlay	168,000	196,000	190,478	(5,522)
	1,780,981	1,880,305	1,802,509	(77,796)
Excess of revenues over (under) expenditures	\$ -	\$ 920	82,214	\$ 81,294
Fund balance at July 1, 2004			1,379,418	
Fund balance at June 30, 2005			\$ 1,461,632	

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 5, 2005

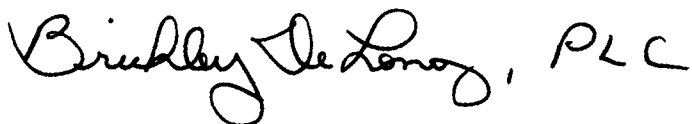
Board of Directors  
Hackley Public Library  
Muskegon, Michigan

In planning and performing our audit of the financial statements of Hackley Public Library for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Hackley Public Library's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the attached reportable condition is a material weakness.

This report is intended solely for the information of the Board of Directors, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

## **REPORTABLE CONDITION**

Recommendation 1: The Library should not perform services for the Friends of Hackley Public Library (Friends).

During our testing, we noted that some of the administrative functions of the Friends, including accounting services, are being performed by Library employees. These functions represent a donation of services to the Friends. Government organizations in the State of Michigan are not allowed to contribute money or services to non-profit organizations.

The Library should discontinue performing any functions for the Friends as soon as administratively possible.